



*(This is a translation of a document originally issued in Polish)*

## **THE LOTOS GROUP**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL PERFORMANCE IN Q2 2011**

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## 1 Market environment

**Table 1: Macroeconomic data**

		Q2 2011	Q1 2011	Q2 2010	Q211 /Q111	Q211 /Q210
DATED Brent FOB prices	USD/bbl	117.04	105.43	78.24	11.0%	49.6%
Urals CIF Rotterdam prices	USD/bbl	113.73	102.55	76.92	10.9%	47.9%
Brent/Ural differential	USD/bbl	3.31	2.88	1.32	14.9%	150.8%
Crack margin	USD/bbl	2.59	1.66	3.96	56.0%	-34.6%
Crack margin: Gasoline	USD/t	172.21	126.19	149.66	36.5%	15.1%
Crack margin: Diesel oil (10 ppm)	USD/t	100.16	117.94	98.69	-15.1%	1.5%
Crack margin: Light fuel oil	USD/t	73.43	88.86	79.74	-17.4%	-7.9%
Crack margin: Aviation fuel	USD/t	168.11	172.71	127.02	-2.7%	32.3%
Crack margin: Heavy fuel oil	USD/t	-264.45	-242.70	-160.19	-9.0%	-65.1%
Average quarterly PLN/USD exchange rate	PLN/USD	2.75	2.88	3.16	-4.5%	-13.0%
Average quarterly PLN/EUR exchange rate	PLN/EUR	3.96	3.95	4.01	0.3%	-1.2%

**Higher crude oil prices and wider Ural/Brent differential**

The most significant macroeconomic factors that had a material impact on the LOTOS Group's performance in Q2 2011 were crude oil price increases and the drop in the PLN/USD exchange rate.

In Q2 2011, the average quarterly price of Brent Dated oil was higher by 11.0% on Q1 2011 and by 49.6% on Q2 2010. Concurrently, the Brent/Ural differential increased by 0.43 USD/bbl relative to Q1 2011 and by 1.99 USD/bbl compared with Q2 2010.

In the reporting period, there was an improvement in the crack margin on gasolines compared with Q1 2011, accompanied by a decline in crack margins on medium distillates and heavy fuel oil.

Compared with the year earlier, Q2 2011 saw an increase in prices of gasolines, aviation fuel, and diesel oil.

## 2 Upstream segment

**Table 2: Crude oil reserves and resources, production and sales**

<b>Crude oil</b>					
<b>Reserves and resources (mbbl) *</b>	<b>Jun 30 2011</b>	<b>Mar 31 2011</b>	<b>Jun 30 2010</b>		
Norway	12.95	12.95	12.95		
Poland	34.45	34.74	35.56		
Lithuania **	6.79	6.95	NA		
<b>Production (bbl/d)</b>	<b>2Q2011</b>	<b>Q1 2011</b>	<b>2Q2010</b>	<b>2Q11 /1Q11</b>	<b>2Q11 /2Q10</b>
Poland	3,149	2,936	3,283	7.3%	-4.1%
Lithuania **	1,707	1,389	NA	22.9%	-
<b>Sales (bbl)</b>	<b>Q2 2011</b>	<b>Q1 2011</b>	<b>2Q2010</b>	<b>Q211 /Q111</b>	<b>Q211 /Q210</b>
Poland	447,664	222,514	395,760	101.2%	13.1%
Lithuania **	172,650	133,317	NA	29.5%	-

\*2P – proved and probable reserves

\*\* based on the interest held in the AB Geonafra Group

**Table 3: Natural gas reserves and resources, production and sales**

Natural gas					
Reserves and resources (bcm) *	Jun 30 2011	Mar 31 2011	Jun 30 2010		
Poland	0.513	0.517	0.529		
Production (mcm)	Q2 2011	Q1 2011	Q2 2010	Q211 /Q111	Q211 /Q210
Poland	3.8	3.7	4.2	2.7%	-9.5%
Sales (mcm)	2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Poland	2.2	2.1	2.9	3.1%	-25.4%

\*2P – proved and probable reserves

### Poland

In Q2 2011, in the Baltic Sea area, production of oil and gas from the B3 field was continued, and further analytical and design work on the preparation for the development of the B8 field was carried out. Preparations were underway for the drilling of injector B8-Z5 on the B8 field. Also, a general overhaul of the crane on the Petrobaltic rig was completed, and Christmas trees in the area of the PG-1 rig were secured.

### Lithuania

In the period under analysis, crude oil was produced from the Girkaliai, Kretinga, Nausodis and Genciu fields, and the Girkaliai-8 exploration and production well was being drilled (the work continued from March to June 26th 2011). June 27th 2011 saw the start of drilling of the Liziai-2 exploration and production well in Liziai (UAB Manifoldas).

### Norway

In Q1 2011, development work as part of the YME production project was continued. Following the information published by Talisman Energy on July 28th 2011, concerning the delay in the launch of production from the YME field, LOTOS Petrobaltic S.A. announced that production from the field was expected to commence in Q2 2012 and reminded that the production rig to be used in the YME field was installed on the site (North Sea, 110km south west of Stavanger) on June 26th 2011. Currently, work is underway on the rig, conducted with the assistance of a Rowan Stavanger rig, to launch production.

LOTOS E&P Norge AS acquired a 25% interest in licence PL 455 from its former lead operator Noreco and became the lead operator (the company's overall interest in the licence is 45%).

3D seismic surveys on licences PL503 and PL503B were commenced.

Crude oil production from the B3 field

Changed start date of production from the YME field

Improved operating performance of the upstream segment

**Table 4: Operating results of the upstream segment**

		2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Sales revenue	PLNm	210.3	103.8	93.5	102.6%	124.9%
Operating profit/(loss)	PLNm	84.3	23.6	35.1	257.2%	140.2%
Depreciation and amortisation	PLNm	25.4	23.2	15.2	9.5%	67.1%
EBITDA	PLNm	109.7	46.8	50.3	134.4%	118.1%

The PLN 106.5m rise in the upstream segment's sales revenue from the level reported in Q1 2011 was driven mainly by higher volumes of oil sold by the segment as a result of a changed delivery schedule and higher crude oil prices. In Q2 2011, sales revenue of the upstream segment was PLN 116.8m higher than in Q2 2010, mainly due to the rise of oil prices and higher oil sales volumes following the acquisition of control (on February 3rd 2011) over AB Meditus, holder of a 59.41% interest in AB Geonafra. The business of AB Geonafra and its group members, including UAB Genciu Nafta, UAB Minijos Nafta and UAB Manifoldas, consists in onshore oil exploration and production in Lithuania.

The segment's sales revenue for Q2 2011 includes the revenue of the AB Meditus group, amounting to PLN 66.6m. The volume of oil sales in Q2 2011 was 620.3 thousand bbl and includes 172.6 thousand bbl (22.2 thousand tonnes) of crude oil produced in the Lithuanian fields and sold outside the Group. The upstream segment's operating result includes the profit earned by the AB Meditus Group, of PLN 24.2m.

### 3 Downstream segment

**Table 5: Structure of crude oil refining**

		2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Volume of crude processed by the Gdańsk refinery	thousand tonnes	2 220.0	2 222.9	2 060.8	-0.1%	7.7%
including:						
Ural crude	thousand tonnes	1 934.9	1 880.9	1 949.5	2.9%	-0.7%
Rozewie crude	thousand tonnes	28.7	32.9	43.6	-12.8%	-34.2%
Other types of crude	thousand tonnes	256.4	309.1	67.7	-17.0%	278.7%

Volume of processed crude oil: 2,220 thousand tonnes

The increase in the volume of processed crude in Q2 2011 relative to the comparable period was due to the processing of crude in the CDU/VDU unit, placed in service in 2010 following completion of the 10+ Programme. In connection with optimisation of the crude oil refining process and the launch of the new crude distillation unit, the share of crude types other than Ural in the total volume of crude processed increased on the Q2 2010 figure to over 12.8%.

**Table 6: Structure of Grupa LOTOS S.A.'s output**

		2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Total output	<i>thousand tonnes</i>	2 474.3	2 480.8	2 234.4	-0.3%	10.7%
Gasolines	<i>thousand tonnes</i>	342.8	296.4	371.3	15.7%	-7.7%
Raw gasoline	<i>thousand tonnes</i>	23.6	74.8	0.0	-68.4%	-
Diesel oil	<i>thousand tonnes</i>	1 178.4	1 035.5	1 014.8	13.8%	16.1%
Light fuel oil	<i>thousand tonnes</i>	64.3	131.5	46.1	-51.1%	39.5%
Aviation fuel	<i>thousand tonnes</i>	101.4	107.6	58.1	-5.8%	74.5%
LPG	<i>thousand tonnes</i>	18.3	16.2	15.6	13.0%	17.3%
Heavy fuel oil	<i>thousand tonnes</i>	245.5	482.5	275.6	-49.1%	-10.9%
Bunker fuel	<i>thousand tonnes</i>	11.2	9.2	9.9	21.7%	13.1%
Components for bitumen production	<i>thousand tonnes</i>	276.8	95.9	256.1	188.6%	8.1%
Other	<i>thousand tonnes</i>	212.0	231.2	186.9	-8.3%	13.4%

**Higher diesel oil production**

**Table 7: Sales structure of the downstream segment**

		2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Consolidated sales of refining products, goods for resale and materials	<i>thousand tonnes</i>	2 354.6	2 467.1	2 074.3	-4.6%	13.5%
Gasolines	<i>thousand tonnes</i>	369.3	321.9	371.5	14.7%	-0.6%
Raw gasoline	<i>thousand tonnes</i>	23.5	74.8	0.0	-68.6%	-
Diesel oils	<i>thousand tonnes</i>	1 164.9	1 052.4	967.5	10.7%	20.4%
Light fuel oil	<i>thousand tonnes</i>	66.8	129.3	49.3	-48.3%	35.5%
Heavy fuel oil	<i>thousand tonnes</i>	182.5	417.6	226.8	-56.3%	-19.5%
JET aviation fuel	<i>thousand tonnes</i>	112.8	101.7	61.9	10.9%	82.2%
Bitumens	<i>thousand tonnes</i>	271.2	83.9	238.4	223.2%	13.8%
Other petroleum products	<i>thousand tonnes</i>	163.6	285.5	158.9	-42.7%	3.0%

In Q2 2011, the overall production and sales volumes were higher year on year. A decline in production and sales volume was reported only for heavy fuel oil. Compared with Q1 2011, the production and sales volume of petroleum products in Q2 2011 did not change materially.

**Table 8: Number of service stations in the LOTOS network at end of period**

	Jun 30 2011	Mar 31 2011	Jun 30 2010	2Q11 /1Q11	2Q11 /2Q10
-	318	316	318	0.6%	0.0%
CODO	158	156	153	1.3%	3.3%
DOFO	112	112	103	0.0%	8.7%
franchise agreements signed	116	116	107	0.0%	8.4%
DODO	48	48	62	0.0%	-22.6%

The retail sales volume recorded in Q2 2011 rose by 16.6% on Q1 2011, due to such factors as seasonality of fuel sales and the higher number of CODO stations. Relative to Q2 2010, the sales volume went up by 7.0%.

**Higher retail sales volume**

**Table 9: Operating results of the retail business (CODO, DOFO, DODO, SDS) \***

		2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Sales volume	<i>thousand tonnes</i>	264.5	226.9	247.3	16.6%	7.0%
Sales revenue	<i>PLNm</i>	1 323.1	1 112.3	1 072.6	19.0%	23.4%
Operating profit/(loss)	<i>PLNm</i>	-12.3	-12.8	8.0	-	-
Depreciation and amortisation	<i>PLNm</i>	11.9	12.0	12.7	-0.8%	-6.3%
EBITDA	<i>PLNm</i>	-0.4	-0.8	20.7	-	-

\*In order to better reflect the results of the Group's operations, starting with the report for Q4 2010 retail sales were reclassified: only sales on the retail market through the CODO (including the Motorway Service Areas), DOFO, DODO and SDS (operated by LOTOS Paliwa) service station networks were classified as retail sales. Data for the retail business relating to Q2 2010 was restated to ensure comparability. Comparative data for other periods is available at the corporate website of Grupa LOTOS S.A.

The continued negative operating performance of the retail segment is a consequence of a low unit margin on sales of fuels, especially at CODO and DOFO stations, which in turn follows from a deterioration of market conditions due to oil price rallies, with limited scope for passing the increase onto customers.

**Low retail margins in Q2 2011**

**Table 10: Operating results of the downstream segment**

		2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Sales revenue	<i>PLNm</i>	6 723.1	6 481.2	4 748.6	3.7%	41.6%
Operating profit/(loss)	<i>PLNm</i>	263.3	390.7	271.6	-32.6%	-3.1%
Depreciation and amortisation	<i>PLNm</i>	118.1	95.9	73.7	23.1%	60.2%
EBITDA	<i>PLNm</i>	381.4	486.6	345.3	-21.6%	10.5%

The 41.6% rise in the downstream segment's sales revenue in Q2 2011 relative to Q2 2010 was mostly due to the growing prices of crude oil and petroleum products on global markets and a 13.5% higher sales volume. In Q2 2011, the average price of Brent crude (Dated Brent) was 117.04 USD/bbl, up by 38.80 USD/bbl, or 49.6%, on Q2 2010. The average net selling price in the downstream segment rose by 24.7%, from 2,289 PLN/t in Q2 2010 to 2,855 PLN/t in Q2 2011. Relative to the previous quarter, selling prices in the

downstream segment went up by 8.7%, with 11.0% higher price of Brent crude. The higher selling prices were the main driver of the 3.7% increase in sales revenue on Q1 2011, with a concurrent fall of 4.6% in the segment's sales volume.

The operating result of the downstream segment in Q2 2011 remained very close to the level reported for Q2 2010. The operating result was benefited by a 13.5% (280.3 thousand tonnes) increase in sales volume as well as by the sales structure. The increase follows from, among others, an increase in the volume of crude oil processed in the Gdańsk refinery by 159.2 thousand tonnes. In Q2 2011, the average quarterly Brent/Urals differential, at 3.31 USD/bbl (up by 1.99 USD/bbl year on year), was another factor contributing to the improved operating result in Q2 2011 relative to Q2 2010.

**Table 11: Effect of inventory valuation on the operating results of the downstream segment**

		Q2 2011	Q1 2011	2Q2010
Operating profit/(loss)	PLNm	263.3	390.7	271.6
LIFO effect*	PLNm	-240.1	-278.1	-253.2
LIFO operating profit/(loss)	PLNm	23.2	112.6	18.4

\* In line with its inventory valuation policies, the LOTOS Group uses the weighted average method to measure decrease in inventories. This method of inventory valuation defers the impact of changes in oil prices on the prices of finished products. Thus, an increase in oil prices has a positive effect on the financial performance, while a decrease drives it down. The operating result accounting for the impact of this valuation method is presented in the table.

**LIFO effect in  
2Q 2011:  
PLN 240.1m**

In Q1 2011, the weighted average method of inventory valuation applied by the LOTOS Group, combined with higher market prices of crude oil in April and at the end of May and beginning of June 2011, drove up the operating result by PLN 240.1m. In the comparative period, the inventory valuation method had a positive effect of PLN 253.2m on the operating result. In Q1 2011, the operating result rose by PLN 278.1m. If the LIFO method had been applied to inventory valuation, the operating result would have been PLN 23.2m in Q2 2011, PLN 112.6m in Q1 2011, and PLN 18.4m in Q2 2010.

#### 4 Other business

**Table 12. Operating results of other business**

		2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Sales revenue	PLNm	5.6	5.2	5.2	7.7%	7.7%
Operating profit/(loss)	PLNm	1.1	-1.2	-1.0	-	-
Depreciation and amortisation	PLNm	2.5	2.4	2.8	4.2%	-10.7%
EBITDA	PLNm	3.6	1.2	1.8	200.0%	100.0%

\* Includes LOTOS Ekoenergia Sp. z o.o., LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A., and Energobaltic Sp. z o.o.

## 5 Statement of comprehensive income

In Q2 2011, the LOTOS Group posted PLN 321.1m in operating profit, which represented a year-on-year improvement of PLN 28.7m and an increase of PLN 91.5m on Q1 2011.

The operating profit of the LOTOS Group for H1 2011 amounted to PLN 733.7m, up by PLN 309.4m (72.9%) on H1 2010.

**EBIT in Q2 2011:  
PLN 321.1m**

**EBITDA  
in Q2 2011:  
PLN 466.8m**

**Table 13. Operating results of the LOTOS Group**

		2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Sales revenue	PLNm	6 781.4	6 515.2	4 742.7	4.1%	43.0%
EBITDA	PLNm	466.8	533.7	383.8	-12.5%	21.6%
Operating Profit/(Loss)	PLNm	321.1	412.6	292.4	-22.2%	9.8%
LIFO operating profit/(loss)	PLNm	81.0	134.5	39.2	-39.8%	-

\* Starting from January 1st 2011, the Group changed its accounting policies as regards the exchange rates used to translate business transactions denominated in foreign currencies. In Q1 2011, application of the new accounting policies did not affect the Group's total net result, but did affect the values presented in the operating and financial parts of the statement of comprehensive income. To ensure data comparability, the same policies were applied to other presented periods.

In Q2 2011, net profit from continuing operations amounted to PLN 253.5m, and was PLN 899.1m higher than the net profit from continuing operations reported in Q2 2010. Relative to Q1 2011, net profit from continuing operations fell by PLN 382.0m.

The net profit from continuing operations for the six months ended June 30th 2011 was PLN 899.0m, up by PLN 1,510.5m on H1 2010.

**Net profit  
in Q2 2011:  
PLN 253.5m**

**Table 14. Net profit of the LOTOS Group**

		2Q2011	Q1 2011	2Q2010	2Q11 /1Q11	2Q11 /2Q10
Pre-tax profit	PLNm	301.2	751.5	-822.6	-59.9%	-136.6%
Net profit/(loss) from continuing operations	PLNm	253.5	635.5	-645.6	-60.1%	-139.3%
Net profit/(loss) attributable to owners of the Parent	PLNm	253.4	635.3	-646.0	-60.1%	-139.2%

The changes in net profit in the periods presented are attributable to the changes in net finance income/expenses at the LOTOS Group. In Q2 2011, the Group recorded net finance expenses of PLN -19.9m, in Q1 2011 - net finance income of PLN 335.3m, and in Q2 2010 - net finance expenses of PLN -1,115.0m. In Q2 2011, the Group recorded net foreign exchange gains amounting to PLN 77.2m. In Q2 2011, the effect of the net gain on remeasurement of loans and borrowings denominated in foreign currencies, taken to the statement of comprehensive income, was PLN 64.5m (presented in finance income).

Starting from January 1st 2011, Grupa LOTOS S.A. introduced cash flow hedge accounting with respect to foreign-currency denominated loans intended for financing of the 10+



Programme, designated as hedges of future USD-denominated petroleum product sales transactions. Accordingly, in the period January 1st–June 30th 2011, foreign exchange gains taken to the revaluation reserve from cash-flow hedges amounted to PLN 248,9m. In Q2 2011, foreign exchange gains taken to the revaluation reserve from cash-flow hedges amounted to PLN 83.4m.

In the analysed period, net valuation and settlement of market risk hedging transactions at the LOTOS Group was PLN -34.7m.

In Q2 2011, total net loss on settlement and valuation of derivative instruments, including forwards hedging the foreign exchange risk and futures hedging the risk of changes in prices of CO<sub>2</sub> emission allowances, amounted to PLN -14.4m. The effect of settlement and valuation of transactions hedging petroleum product prices in Q2 2011 amounted to PLN 3.2m. The net loss on settlement and valuation of interest rate hedging transactions amounted to PLN -23,5.

**Table 15: Transactions executed to hedge the risk of changes in prices of petroleum products, as at June 30th 2011**

Period	Product/commodity	Light fuel oil	Heavy fuel oil
		Gasoil .1 Cargoes CIF NWE / ARA	3.5 PCT Barges FOB Rotterdam
Q3 2011	Volume (mt)	-7,191	32,691
	Price range (USD/mt)	715.00–796.25	473.00–517.75
Q4 2011	Volume (mt)	-4,880	22,180
	Price range (USD/mt)	715.00–796.25	473.00–517.75

**Table 16: Foreign exchange risk hedging transactions as at June 30th 2011**

Currency pair	Instrument	Volume	Currency	FX rate range
EUR/USD exchange rate	Forward	116,000,000	EUR	1.31293–1.44455
EUR/PLN exchange rates	Forward	61,300,000	EUR	3.9748–4.0912
USD/PLN exchange rates	Forward	-70,745,000	USD	2.7005–3.11535

**Table 17: Interest rate risk hedging transactions as at June 30th 2011**

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Oct 15 2008	to Jan 15 2013	500,000,000	USD	3.33%–4.22%	LIBOR 6M
	from Jul 15 2011	to Jan 15 2018				

## 6 Consolidated statement of financial position

**Table 18: Consolidated statement of financial position**

		Jun 30 2011	Dec 31 2010	Change	%
<b>Assets</b>	<b>PLNm</b>	<b>19 514,0</b>	<b>17 727,4</b>	<b>1 786,6</b>	<b>10,1%</b>
Non-current including:	assets, PLNm	11 208.1	10 872.1	336.0	3.1%
Property, plant and equipment	PLNm	9 012.1	6 173.8	2 838.3	46.0%
Tangible assets under construction	PLNm	1 465.8	4 213.7	-2 747.9	-65.2%
Current assets, including:	PLNm	8 196.1	6 847.4	1 348.7	19.7%
Inventories	PLNm	5 270.9	4 506.8	764.1	17.0%
Trade and other receivables	PLNm	2 266.6	1 821.9	444.7	24.4%
Current financial assets	PLNm	174.7	55.9	118.8	212.5%
Cash and cash equivalents	PLNm	342.0	382.6	-40.6	-10.6%
Assets available for sale	PLNm	109.8	7.9	101.9	1289.9%
<b>Equity and liabilities</b>	<b>PLNm</b>	<b>19 514.0</b>	<b>17 727.4</b>	<b>1 786.6</b>	<b>10.1%</b>
Equity	PLNm	8 596.1	7 513.5	1 082.6	14.4%
Non-current liabilities	PLNm	5 212.3	5 039.1	173.2	3.4%
Current liabilities	PLNm	5 668.5	5 174.6	493.9	9.5%
Liabilities related to assets available for sale	PLNm	37.1	0.2	36.9	18450.0%

As at June 30th 2011, the LOTOS Group had total assets of PLN 19,514.0m, which means an increase of PLN 1,786.6m during the first six months of 2011. In H1 2011, non-current assets grew by PLN 336.0m, mainly due to the recognition of intangible assets in the amount of PLN 291.8m, representing licences awarded to AB Geonafta and its group companies (UAB Genciu Nafta, UAB Minijos Nafta, and UAB Manifoldas) which confer the right to exploit crude oil reserves in Lithuania. As at June 30th 2011, inventories amounted to PLN 5,270.9m, having increased over the first six three months of 2011 by PLN 764.1m, mainly due to higher volumes of mandatory stocks (an increase in fuels and heavy fuel oil by 62.3 thousand cubic meters and in crude oil by 182.5 thousand tonnes) and higher prices of crude oil and petroleum products as at the end of H1 2011 relative to the the end of 2010. Higher product prices were the main reason behind the PLN 444.7m rise in trade and other receivables. At the end of H1 2011, current assets totalled PLN 8,196.1m, and were PLN 1,348.7m higher relative to the end of 2010.

As at June 30th 2011, equity totalled PLN 8,596.1m, having grown by PLN 1,082.6m during H1 2011, chiefly on the back of a PLN 893.5m increase in retained earnings and foreign exchange gains on valuation of cash flow hedges, taken to the revaluation reserve, adjusted by tax effect of PLN 201.6m.

In H1 2011, non-current liabilities amounted to 173.2m, primarily owing to an increase in deferred tax liabilities, to reach PLN 5,212.3m as at the end of the period. Interest-bearing

**Non-current assets  
grew by PLN 336.0m**

non-current loans and borrowings totalled PLN 4,381.3m, a PLN 22.2m drop from the end of 2010.

At the end of June 2011, current liabilities stood at PLN 5,668.5m, having grown by PLN 493.9m in 2011, mainly due to a PLN 307.9m increase in trade payables, following primarily from a 21.5% increase in volume and 45.5% increase in value of crude oil purchased in June 2011 relative to crude oil purchased in December 2010. Current loans and borrowings as at the end of June 2011 amounted to PLN 2,219.7m, which means an increase of PLN 296.4m over H1 2011, mainly as a result of a transfer of non-current loans to current loans and the development of the operations of the upstream segment.

As at June 30th 2011, the financial debt of the LOTOS Group amounted to PLN 6,601.0m, up by PLN 274.2m on the 2010 end-of-year figure. The ratio of financial debt (adjusted by free cash) to equity was 72.8%, i.e. by 6.3pp less than as at December 31st 2010.

**Financial debt:  
PLN 6,601m**

## 7 Consolidated statement of cash flows

**Table 19: Consolidated statement of cash flows**

		2Q2011	2Q2010	Change
Cash flows from operating activities	<i>PLNm</i>	-588.1	54.9	-643.0
Cash flows from investing activities	<i>PLNm</i>	-175.8	-265.7	89.9
Cash flows from financing activities	<i>PLNm</i>	4.2	-17.4	21.6
Change in net cash	<i>PLNm</i>	-760.5	-223.5	-537.0
Cash and cash equivalents at beginning of period	<i>PLNm</i>	494.2	142.0	352.2
Cash and cash equivalents at end of period	<i>PLNm</i>	-266.3	-81.5	-184.4

As at the end of Q2 2011, the LOTOS Group's cash balance (including current account overdrafts) was PLN -266.3m, and was PLN 184.4m lower than at the end of Q2 2010.

The cash flows used in operating activities in Q2 2011, amounting to PLN -588.1m, are related chiefly to a PLN 590.9m increase in inventories and a PLN 352.1m drop in current liabilities, excluding loans and borrowings.

In the discussed period, PLN 89.9m higher negative cash flows from investing activities were mainly attributable to lower expenses incurred to acquire property, plant and

**Negative operating  
cash flows resulting  
chiefly from higher  
inventories**

equipment and intangible assets. In Q2 2011, in cash flow from investing activities, the Group disclosed the expenses related to the acquisition of AB Meditus, net of the cash acquired in the business combination, amounting to PLN 52.0m (the acquisition cost of AB Meditus shown in the consolidated financial statements for H1 2011 amounted to PLN 104.3m)

In Q2 2011, cash flows from financing activities amounted to PLN 4.2m. The amount includes increases in loans and borrowings adjusted by outflow on their repayment and interest paid of PLN 92.1m, and is reduced by the balance related to the issue and redemption of bonds of PLN -69.1m and negative balance of financial instruments of PLN -18.2m.

<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME THE LOTOS GROUP</b>	<b>3 months ended Jun 30 2011</b>	<b>3 months ended Jun 30 2010 (restated)</b>
(PLN '000)	<b>(unaudited)</b>	<b>(unaudited)</b>
Sales revenue	6,781,383	4,742,710
Cost of sales	(6,119,184)	(4,131,302)
<b>Gross profit</b>	<b>662,199</b>	<b>611,408</b>
Selling costs	(246,623)	(218,452)
General and administrative expenses	(104,602)	(92,363)
Other operating income	20,383	8,657
Other operating expenses	(10,229)	(16,891)
<b>Operating profit</b>	<b>321,128</b>	<b>292,359</b>
Finance income	29,469	1,348
Finance expenses	(49,383)	(1,116,284)
Share of investments in associates	-	-
Loss of control over subsidiary	-	-
<b>Pre-tax profit/(loss)</b>	<b>301,214</b>	<b>(822,577)</b>
Corporate income tax	(47,741)	176,959
<b>Net profit/(loss) from continuing operations</b>	<b>253,473</b>	<b>(645,618)</b>
Exchange differences on translation of foreign operations	(37)	28,272
Cash flow hedge accounting	83,423	-
Income tax on other comprehensive income	(15,870)	-
Other	306	-
<b>Other comprehensive income (net)</b>	<b>67,822</b>	<b>28,272</b>
<b>Total comprehensive income</b>	<b>321,295</b>	<b>(617,346)</b>
<b>Net profit/(loss) from continuing operations attributable to:</b>	<b>253,473</b>	<b>(645,618)</b>
Owners of the Parent	253,435	(646,008)
Non-controlling interests	38	390
<b>Total comprehensive income attributable to:</b>	<b>321,295</b>	<b>(617,346)</b>
Owners of the Parent	321,257	(617,931)
Non-controlling interests	38	585
<b>Net profit/(loss) from continuing operations attributable to owners of the Parent per share (PLN)</b>		
- basic	1.95	(4.97)
- diluted	-	-

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b> <b>THE LOTOS GROUP</b>	<b>Jun 30 2011</b>	<b>Dec 31 2010</b> <b>(restated)</b>
(PLN '000)	<b>(unaudited)</b>	<b>(audited)</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	9,012,112	6,173,798
Tangible assets under construction	1,465,764	4,213,684
Goodwill	46,688	46,688
Intangible assets	415,615	94,825
Investment property	3,005	3,376
Investments in associates accounted for using the equity method	-	93,064
Non-current financial assets	62,553	54,099
Deferred tax assets	162,172	159,901
Non-current receivables	33,224	28,612
Prepayments and accrued income	6,977	4,003
<b>Total non-current assets</b>	<b>11,208,110</b>	<b>10,872,050</b>
<b>Non-current assets held for sale</b>	<b>23,638</b>	<b>6,018</b>
<b>Current assets</b>		
Inventories, including:	5,270,916	4,506,791
- mandatory stocks	3,939,352	2,980,241
Trade and other receivables	2,266,613	1,821,939
Current income tax receivable	94,655	47,492
Prepayments and accrued income	47,228	32,674
Current financial assets	174,686	55,906
Cash and cash equivalents	341,965	382,601
<b>Total current assets</b>	<b>8,196,063</b>	<b>6,847,403</b>
<b>Current assets held for sale, including:</b>	<b>86,189</b>	<b>1,893</b>
- cash and cash equivalents	1,104	77
- other current assets	85,085	1,816
<b>Total assets</b>	<b>19,514,000</b>	<b>17,727,364</b>

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b> <b>THE LOTOS GROUP</b>	<b>Jun 30 2011</b>	<b>Dec 31 2010</b> <b>(restated)</b>
(PLN '000)	<b>(nie badane)</b>	<b>(badane)</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	129,873	129,873
Statutory reserve funds	1,311,348	1,311,348
Revaluation reserve	201,580	-
Retained earnings	6,938,808	6,045,317
Translation reserve	13,504	12,281
<b>Equity attributable to owners of the Parent</b>	<b>8,595,113</b>	<b>7,498,819</b>
<b>Non-controlling interests</b>	<b>982</b>	<b>14,658</b>
<b>Total equity</b>	<b>8,596,095</b>	<b>7,513,477</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	4,381,275	4,403,453
Long-term provisions	341,546	320,722
Deferred tax liability	283,136	123,143
Other financial liabilities	167,906	151,666
Accruals and deferred income and other liabilities	38,440	40,141
<b>Total non-current liabilities</b>	<b>5,212,303</b>	<b>5,039,125</b>
<b>Current liabilities</b>		
Trade payables, accruals and deferred income, and other liabilities	3,268,743	2,960,776
Current income tax payable	23,013	15,188
Interest-bearing loans and borrowings	2,219,695	1,923,341
Notes	19,970	52,670
Short-term provisions	19,236	20,218
Other financial liabilities	117,863	202,396
<b>Total current liabilities</b>	<b>5,668,520</b>	<b>5,174,589</b>
<b>Liabilities associated with assets held for sale</b>	<b>37,082</b>	<b>173</b>
<b>Total liabilities</b>	<b>10,917,905</b>	<b>10,213,887</b>
<b>Total equity and liabilities</b>	<b>19,514,000</b>	<b>17,727,364</b>

<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b> <b>THE LOTOS GROUP</b>	<b>3 months ended</b> <b>Jun 30 2011</b>	<b>3 months ended</b> <b>Jun 30 2010</b> <b>(restated)</b>
(PLN '000)	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Cash flows from operating activities</b>		
<b>Net profit/(loss) from continuing operations</b>	<b>253,473</b>	<b>(645,618)</b>
<u>Adjustments:</u>		
Depreciation and amortisation	145,665	91,401
Foreign exchange (gains)/losses	(67,678)	910,508
Interest and dividends	42,848	4,140
(Gain)/loss from investing activities	22,371	4,972
Income tax paid	(77,031)	(15,493)
Current income tax	47,741	(176,959)
(Increase) in receivables	(6,556)	(125,982)
(Increase) in inventories	(590,910)	(718,501)
Increase/(Decrease) in liabilities and accruals and deferred income	(352,107)	479,957
Increase in provisions	8,036	11,177
(Increase)/Decrease in prepayments and accrued income	2,717	10,018
Settlement and valuation of financial instruments	34,726	225,029
Other adjustments	(51,402)	273
<b>Net cash provided by/(used in) operating activities</b>	<b>(588,107)</b>	<b>54,922</b>
<b>Cash flows from investing activities</b>		
Interest received	994	270
Dividend received	514	10,463
Sale/(Purchase) of tangible and intangible assets prepayments for tangible assets under construction	(108,282)	(275,425)
Sale of non-current financial assets	359	42
Sale/(Purchase) of current financial assets	-	(21)
Other cash inflows from/(outflows on) financial assets	(16,031)	(1,013)
Acquisition of UAB Meditus, net of cash acquired	(51,985)	-
Other items, net	(1,377)	-
<b>Net cash provided by/(used in) investing activities</b>	<b>(175,808)</b>	<b>(265,684)</b>



<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b> <b>THE LOTOS GROUP</b>	<b>3 months ended</b> <b>Jun 30 2011</b>	<b>3 months ended</b> <b>Jun 30 2010</b> <b>(restated)</b>
(PLN '000)	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Cash flows from financing activities</b>		
Increase in loans and borrowings	217,001	181,724
Issue of notes	156,928	-
Cash flows attributable to changes in interest in a subsidiary undertaking not resulting in loss of control over non-current financial assets	(919)	(10,891)
Repayment of loans and borrowings	(99,690)	(119,898)
Redemption of notes	(226,000)	-
Interest paid	(25,251)	(23,087)
Decrease in finance lease liabilities	(822)	(774)
Settlement of financial instruments	(18,191)	(44,449)
Other items, net	1,114	(82)
<b>Net cash provided by/(used in) financing activities</b>	<b>4,170</b>	<b>(17,457)</b>
Effect of exchange rate fluctuations on cash held	(769)	4,707
<b>Change in net cash</b>	<b>(760,514)</b>	<b>(223,512)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>494,205</b>	<b>142,032</b>
<b>Cash and cash equivalents at end of period</b>	<b>(266,309)</b>	<b>(81,480)</b>
- restricted cash	27,090	37,379